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GENERAL**1. Comment on Peiping statement on strategic trade with the West:**

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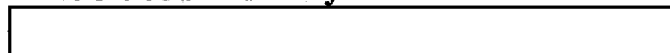
The public statement by a Chinese Communist foreign trade official on 18 August indicating that British ships have been carrying strategic cargoes to China from Western Europe seems designed primarily to embarrass the Churchill government in the eyes of other Western nations. It is a further attempt to exploit the presence of British Labor Party leaders in Peiping.

This statement will probably strengthen the widespread suspicion in Europe and elsewhere that the British are trying to gain primacy in the Chinese market. Actually, however, the tighter shipping controls instituted by Britain in March 1953 have been generally effective.

The Chinese official's declaration that Peiping would be satisfied with an embargo limited to "instruments of war" is an obvious attack on COCOM's China list, which is much stricter than the controls on trade with the USSR and the European Satellites. Britain's official view is that the present controls on China trade should be retained for the time being, but some business interests and many left-wing elements want them lifted.

Portugal and Japan have already served notice in COCOM that they would like to see restrictions on China trade eased.

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**2. USSR may propose neutral observation commission for all-German elections:**

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American officials in Moscow suspect that the Soviet Union may be planning to propose some kind of "toothless" international observation commission for all-German elections.

This possibility is suggested by a Pravda article of 17 August which contrasted the International Commission established for Vietnam with



the Western proposal for supervision of German elections by the occupation powers. Pravda noted that the Vietnam commission will have observation functions only and will be drawn from countries which do not have occupation troops in Vietnam.

Comment: At the Berlin conference, Foreign Minister Molotov insisted on purely German control of elections and rejected Western suggestions that neutral nations and occupying powers control them. Moscow might now propose establishing a neutral observation commission, but would almost certainly insist on the exclusion of occupation powers, the prior withdrawal of all foreign troops, and further regulations to prohibit "militarist" or "monopolist" influence on elections.

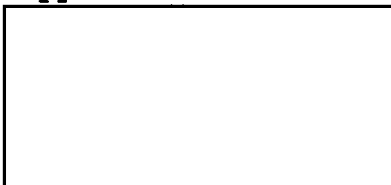
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NEAR EAST - AFRICA

4. Approval of Iranian oil agreement possible by mid-September:

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The Majlis may vote on the consortium oil agreement by the middle of September, according to Ambassador Henderson in Tehran. When the Majlis reconvenes on

24 August, it will appoint members to sit with selected senators on a joint oil committee to examine the agreement. Their study is expected to take about two weeks.

The Shah is showing unexpected firmness in pressing members of the Majlis and Senate to support the agreement, and has stated he would tell recalcitrant deputies and senators that opposition will be regarded as hostility to the crown. This is said to have resulted in the "disorderly retreat" of the agreement's opponents.

Comment: The Shah's support of the agreement, if continued, will probably be decisive. No effective opposition to the agreement is expected, although the obstructionism of a few irreconcilables in the Majlis may cause some delay in the projected timetable.

5. Dissension reported in Egyptian Revolutionary Command Council:

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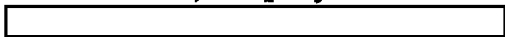


Prime Minister Nasr and the Revolutionary Command Council are having considerable difficulty in controlling National Guidance Minister Salah Salim and, to a lesser extent,


his brother, Deputy Premier Gamal Salim, 

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 Both these council members are frequently guilty of irresponsible actions; despite Salah Salim's unpopularity with the people, he insists on acting as the spokesman for the regime.

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 Nasr and the other members of the council are disturbed by this situation but unwilling to take positive action because Salah Salim is considered a cofounder of the council. Nasr believes that the only solution is to give Salah enough rope to hang himself.

Comment: Having barely survived the tensions created in the council by the February crisis with President Nagib, Nasr can ill afford any further fragmentation within the council at this time. Increasing concern with internal council maneuvers may prevent Nasr from adopting a forthright policy in the domestic and international field.

WESTERN EUROPE

6. Sentiment rising in West Germany for rapprochement with Soviet Union:

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In conversation with Ambassadors Conant and Bruce on 17 August, Chancellor Adenauer said that sentiment was growing in West Germany for finding means for "getting along with the Soviet Union." He noted that public opinion polls had shown a recent 13-percent drop in the popularity of his policies.

Relating this trend to Western disunity, Adenauer expressed the conviction that if France could be made to realize that it will be isolated from the United States and Britain if it fails to ratify the EDC treaty, the French National Assembly would act favorably.

Comment: Adenauer's remarks on public opinion represent both sales talk to promote strong American opposition to Mendes-France's proposed EDC modifications and honest fears that neutralism is growing. Since the Geneva conference, the West German press has shown an increasing tendency to emphasize the possibility of a negotiated East-West settlement.

Three months ago Adenauer succeeded in discouraging the growing pressure in the coalition for closer Orbit relations. On 16 August, however, Vice Chancellor Bluecher, a Free Democrat, publicly called for the resumption of diplomatic relations with Communist countries.

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